

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE)	
COMMISSION OF THE ENVIRONMENTAL)	
SURCHARGE MECHANISM OF KENTUCKY)	CASE NO. 96-605
UTILITIES COMPANY AS BILLED FROM)	
AUGUST 1, 1994 TO JULY 31, 1996)	

O R D E R

On July 19, 1994, the Commission approved Kentucky Utilities Company's ("KU") environmental surcharge application and established a surcharge mechanism.¹ Pursuant to KRS 278.183(3), at two-year intervals, the Commission must review and evaluate the past operations of the environmental surcharge. After hearing, the Commission must disallow improper expenses and to the extent appropriate incorporate surcharge amounts found just and reasonable into the existing base rates of the utility. The Commission hereby initiates the two-year review of KU's environmental surcharge as billed from August 1, 1994 to July 31, 1996.²

In anticipation that those parties to KU's last six-month review will desire to participate in this proceeding, the Attorney General's Office ("AG"), Lexington-Fayette

¹ Case No. 93-465, The Application of Kentucky Utilities Company to Assess a Surcharge Under KRS 278.183 to Recover Costs of Compliance with Environmental Requirements for Coal Combustion Wastes and By-Products, final Order dated July 19, 1994.

² Since KU's surcharge is billed on a two-month lag, the amounts billed from August 1994 through July 1996 are based on costs incurred from June 1994 through May 1996.

Urban County Government ("LFUCG"), and the Kentucky Industrial Utility Customers ("KIUC") will be deemed parties to this proceeding.

IT IS THEREFORE ORDERED that:

1. The procedural schedule set forth in Appendix A, attached hereto and incorporated herein, shall be followed in this proceeding.

2. KU shall appear at the Commission's offices on the date set forth in Appendix A, to submit itself to examination on the application of its environmental surcharge as billed to consumers from August 1, 1994 through July 31, 1996.

3. KU shall give notice of the hearing in accordance with the provisions of 807 KAR 5:011, Section 8(5). At the time publication is requested, KU shall forward a duplicate of the notice and request to the Commission.

4. KU shall, by the date set forth in Appendix A, file the information requested in Appendix B, attached hereto and incorporated herein, along with its prepared direct testimony in support of the reasonableness of the application of its environmental surcharge mechanism during the review period.

5. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to questions related to the information, with copies to all parties of record and an original and 10 copies to the Commission.

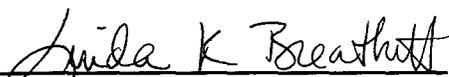
6. The AG, LFUCG, and KIUC are granted full intervention in this proceeding.

7. KU's monthly environmental surcharge reports and supporting data for the review period shall be incorporated by reference into the record of this case.

8. The case records of Case Nos. 93-465, 95-060,³ 95-445,⁴ and 96-196⁵ shall be incorporated by reference into the record of this case.

Done at Frankfort, Kentucky, this 18th day of December, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

³ Case No. 95-060, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1994 to January 31, 1995.

⁴ Case No. 95-445, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from February 1, 1995 to July 31, 1995.

⁵ Case No. 96-196, An Examination by the Public Service Commission of the Environmental Surcharge Mechanism of Kentucky Utilities Company as Billed from August 1, 1995 to January 31, 1996.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 96-605 DATED 12/18/96

KU shall file its prepared direct testimony and responses to the
information request in Appendix B no later than 01/06/97

All additional requests for information to KU shall be
filed no later than 01/17/97

KU shall file responses to additional requests for
information no later than 01/27/97

Intervenor testimony, if any, in verified prepared form
shall be filed no later than 02/07/97

All requests for information to Intervenors shall
be filed no later than 02/19/97

Intervenors shall file responses to requests for
information no later than 03/05/97

Last day for KU to publish notice of hearing date 03/11/97

Public Hearing is to begin at 10:00 a.m., Eastern
Standard Time, in Hearing Room 1 of the Commission's
offices at 730 Schenkel Lane, Frankfort, Kentucky,
for the purpose of cross-examination of witnesses of
KU and Intervenors 03/18/97

Briefs, if any, shall be filed by 04/22/97

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 96-605 DATED 12/18/96

INITIAL INFORMATION REQUEST

1. Prepare ES Forms 4.0, 4.1, and 4.2 as identified in Appendix B to the July 19, 1994 Order in Case No. 93-465, reflecting the format modifications ordered in Case No. 96-196, for the billing period August 1994 through July 1996. The amounts reported on these forms should reflect the Commission's decisions announced in prior six-month environmental surcharge reviews. Include any supporting workpapers, assumptions, or other documents as necessary.

2. For each month in the billing period August 1994 through July 1996, provide the calculations, assumptions, workpapers, and other supporting documents used to determine the amounts KU has reported for Pollution Control Deferred Income Taxes and Pollution Control Deferred Investment Tax Credits.

3. Refer to ES Form 2.1, Plant, CWIP, and Depreciation Expense, for May 1996.

a. For each project listed, indicate the percentage of completion as of May 31, 1996.

b. For each project still in progress as of May 31, 1996, indicate whether the project was on schedule, behind schedule, or ahead of schedule. Provide the expected completion date if different from information filed in the Case No. 93-465 application, Lucas Exhibit 1.

4. Provide the calculations used to determine the weighted average cost of KU's emission allowance inventory as of May 31, 1996. Provide this calculation for the

1995 and 1996 vintage years and total all vintage years. Include all supporting schedules, workpapers, and assumptions.

5. Refer to ES Form 2.1, for the expense months of December 1995 through May 1996. During Case No. 96-196, KU indicated in a data response¹ that as of November 30, 1995, the following projects in its approved compliance plan were 100 percent complete, without qualifications:

- a. Ghent 1 Scrubber.
- b. Gypsum Stacker.
- c. Flue Gas Dispersion.
- d. Precipitator - All Plants.
- e. Dust Elimination System.

If these projects were 100 percent complete, explain why construction work in progress balances were reported for each of these projects during the December 1995 through May 1996 period.

6. Explain the changes in the following expense levels:

a. Tyrone - Subaccount No. 51208, CEMS & Precipitator Maintenance, reported for December 1995.

b. Green River - Subaccount No. 51208, CEMS & Precipitator Maintenance, reported for December 1995 through May 1996.

c. E. W. Brown - Subaccount No. 51207, Ash Handling - Maintenance, reported for February, March, and May 1996.

¹ Response to the Commission's May 13, 1996 Order, Item 3.

d. Ghent - Subaccount No. 50205, Scrubber Operation, reported for February, March, and May 1996.

e. Ghent - Subaccount No. 50605, CEMS & Precipitator Operation, reported for January, February, and May 1996.

f. Ghent - Subaccount No. 51207, Ash Handling - Maintenance, reported January, February, April, and May 1996.

g. Ghent - Subaccount No. 51208, CEMS and Precipitator Maintenance, reported December 1995, January, February, March, and May 1996.

h. Ghent - Subaccount No. 51209, Scrubber Maintenance, January, March, April, and May 1996.

7. For each project listed on the May 1996 ES Form 2.1, provide the following balances as of January 1, 1993:

- a. Plant in Service, excluding AFUDC.
- b. Accumulated Depreciation.
- c. Construction Work in Progress, excluding AFUDC.
- d. Monthly Depreciation Expense.
- e. Pollution Control Deferred Income Taxes.
- f. Pollution Control Deferred Investment Tax Credits.

If applicable, include the balances for plant in service, accumulated depreciation, and monthly depreciation expense for reported retirements as of January 1, 1993. Include all assumptions and any supporting documents used to determine these balances.

8. KRS 278.183(3) provides that during the two-year review, the Commission shall to the extent appropriate incorporate surcharge amounts found just and reasonable into the existing base rates of the utility.

a. Explain how KU envisions the adjustment to base rates being performed.

b. Describe what adjustments, if any, will be needed to the monthly surcharge reporting to adequately reflect the incorporation of surcharge amounts into base rates.

c. Describe what impact the pending appeal of the Commission's Orders in Case No. 93-465 will have on the surcharge amounts incorporated into base rates.

d. Describe what impact the subject to refund status for surcharge revenues will have on the surcharge amounts incorporated into base rates.

9. KU's environmental surcharge mechanism is based on an incremental approach. After the incorporation of surcharge amounts into KU's base rates, would it be reasonable to move from an incremental approach to a base period-current period approach? Explain the response.